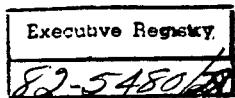




OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

August 18, 1982



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MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE DIRECTOR, OFFICE OF MANAGEMENT
AND BUDGET
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR
POLICY DEVELOPMENT
UNITED STATES TRADE REPRESENTATIVE
✓DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT Senior Interdepartmental Group on International
Economic Policy (SIG-IEP)

Attached is a paper seeking the guidance of the SIG-IEP on funding U.S. participation in the African, Asian, and Inter-American development banks -- for discussion at this Friday's meeting.


David E. Pickford
Executive Secretary

Attachments

U.S. Participation in the African, Asian and Inter-American Development Banks

In 1981 it was decided that the FY 1984 budget figures for the multilateral development banks (MDBs) would not provide for paid-in capital for the upcoming Asian Development Bank (ADB) General Capital Increase or the Inter-American Development Bank (IDB) resource replenishment, and no provision would be made for U.S. subscriptions to the African Development Bank. The decision to exclude budget figures for paid-in capital was based on the belief that paid-in was no longer needed by the banks and that such exclusion would strengthen the position of the U.S. representative in negotiating zero paid-in capital. The African Development Bank decision was based on the fact that the opening of the Bank to non-regional members had been delayed.

Negotiations of the ADB and IDB replenishments are now at a point where presentation of a formal U.S. position is critical to the timely completion of the negotiations. The IDB has scheduled a meeting for September 9-10 in Toronto where it hopes to make substantial progress towards reaching agreement on a replenishment. At this time it is clear that it will not be possible to reach agreement with other member countries of the ADB or the IDB on zero paid-in capital. These countries believe that paid-in capital is essential for the future of the institutions, not only as evidence of continued strong donor country support, but also as financial backing for the issuance of bonds in the international capital markets. In addition, consultations with Congress have shown that there is strong opposition to zero paid-in capital in these institutions.

Although we have not been able to get agreement on zero paid-in, we have come a long way toward reducing the percentage paid-in and even the absolute level of our contributions (see Table A). We believe it is possible to gain agreement on a replenishment of IDB resources (Capital and FSO) with an annual U.S. share paid in of \$140 million as compared to \$227 million under the current replenishment and \$336 million under Management's proposal. In the ADB we believe it is possible to have a capital increase that would result in a U.S. paid-in capital subscription of \$14 million per year, down from \$20 million under the current increase, and \$20 million less than the ADB Management's proposal.

Ratification of the African Development Bank (AFDB) charter amendments allowing non-regional membership was finally completed in May, 1982, and the Bank has asked for an indication of when the United States will be prepared to join. A meeting of potential non-regional members will take place in Toronto on September 11, at which time the United States should be prepared to announce its intentions regarding U.S. membership.

Treasury and State have proposed, and the CCEA has concurred, that in Toronto the United States indicate its willingness to join the African Development Bank and to agree to participate in the Asian and Inter-American Bank replenishments. The proposal,

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Treasury's best estimate of replenishment parameters which would be acceptable to the other MDB members, would require a total of \$192 million in budget authority in FY 1984 of which only \$100 million was provided for in the FY 1984 planning ceilings.

It should be pointed out that the MDBs are likely to be funded under a continuing resolution in FY 1983. Under international MDB replenishment agreements, any shortfall in subscription or contributions would normally be sought again in the next budget year. Consequently, it is possible that there could be a shortfall of up to \$323 million (of which \$245 million could be the International Development Association) in the FY 1983 request to be carried forward to FY 1984 (see Table B). While this paper seeks only a decision on how the \$92 million of additional budget authority should be funded, it should be borne in mind that the total budget problem may be compounded by the eventual Continuing Resolution. It should also be pointed out that no matter how this issue is resolved, the Congress will probably not fully fund the FY 1984 IDA request either, and the amounts finally appropriated for the MDBs in FY 1984 are therefore not likely to exceed the current \$1.5 billion budget planning ceiling in any case. We believe that there are three possible alternatives:

I. Reduce IDA VI Request

The first alternative would be to reduce the FY 1984 request for our last installment of the Sixth Replenishment of the International Development Association (IDA VI), currently \$1,095 million to make room for the IDB, ADB and AFDB requests and bring the overall FY 1984 MDB request within the established ceilings. The same mechanism could be used to deal with any eventual Continuing Resolution carry-over.

The major drawback is that the Administration is on record internationally that it will seek to fulfill our IDA VI commitment in full in FY 1984 and the President has personally indicated his support for IDA VI. A reduction in the IDA request will generate wide ranging opposition from the institution, other donors (primarily European countries and Japan), and recipient countries.

This alternative is appealing because, in all likelihood, Congress will reduce significantly the funding for IDA anyway, regardless of the amount requested by the Administration. By reducing only the IDA request we limit negative international reaction to IDA where we will get political heat anyway when Congress reduces IDA funding. This could also be beneficial in that it would likely lower the expectations of other countries about the size of IDA VII. If IDA were reduced to a long-term level of \$700-750 million, it would provide a partial outlay offset for the \$92 million program increase (half or more of the \$24 million outlay increase) and would provide enough room within the current FY 1984 ceiling to handle likely carry-over from an FY 1983 Continuing Resolution.

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II. Raise MDB Budget Ceiling

A second alternative would be to increase the budget ceiling for the MDBs by the required amounts. This would allow us to request the funds needed to meet our existing commitments to the MDBs and allow us to participate in the African Bank and Inter-American and Asian Bank replenishments.

However, if budget ceilings were increased, in the budget process Congress probably would reduce these levels and transfer the budget authority to other programs.

This option adds roughly \$24 million to FY 1984 outlays and would argue for increasing the FY 1984 ceiling further by the amount of the eventual Continuing Resolution carry-over.

The Administration's FY 1983 and FY 1984 MDB program totals \$3.1 billion in budget authority. Therefore, it could be argued that to the extent that the FY 1983 MDB appropriations are less than \$1.5 billion, the shortfall could be carried over to FY 1984 without exceeding the \$3.1 billion program.

III. Reallocate Within Multilateral Ceiling

The third alternative would be to reallocate within the existing budget ceiling for multilateral programs, while leaving the \$1.1 billion request for IDA intact.

One option would be to reduce the request for non-MDB multilateral programs -- especially the International Fund for Agricultural Development (IFAD) -- in order to maintain the budget ceilings but fully fund both the IDA request and U.S. participation in the AFDB, ADB and IDB. Coupled with this option could be a full or partial reduction in the \$58 million of MDB "arrearages" already included in the FY 1984 request. The basic problem with this option is that by reducing the request for regional MDB arrearages, we are likely to come out of FY 1984 with higher total MDB arrearages (because of the likely IDA cut) than if we only reduced the request for IDA.

This alternative would generate more opposition from more quarters than a reduction in the IDA request because more programs would be adversely affected (except if only IFAD were reduced). It would provide little outlay offset, adding perhaps \$20 million to FY 1984 outlays, and would defer the problem of any FY 1983 Continuing Resolution carry-over.

Table A
MDB Replenishment Proposals
(\$ millions)

INTER-AMERICAN DEVELOPMENT BANK

	<u>Current Increase</u>	<u>IDB Capital Increase Proposals</u>			
		<u>IDB Management</u>	<u>Group A Countries*</u>	<u>Canada</u>	<u>Proposed U.S.</u>
Capital Increase Size	8,000	17,410	22,600	15,780	13,900
U.S. Share	<u>2,749</u>	<u>6,006</u>	<u>7,797</u>	<u>5,444</u>	<u>4,796</u>
Paid-in	206	450	585	272	240
<Callable>	<2,543>	<5,556>	<7,212>	<5,172>	<4,556>
Annual U.S. Subscription					
Paid-in	52	113	146	68	60
<Callable>	<636>	<1,389>	<1,803>	<1,293>	<1,139>

	<u>Current Replen- ishment</u>	<u>FSO Replenishment Proposals</u>			
		<u>IDB Management</u>	<u>Group A Countries*</u>	<u>Canada</u>	<u>Proposed U.S.</u>
Replen-ishment Size	1,750	2,225	816**	1,080**	800
U.S. Share	700	890	326	432	320
Annual Contribution	175	223	82	108	80

ASIAN DEVELOPMENT BANK

	<u>Current Increase</u>	<u>ADB GCI Proposals</u>	
		<u>ADB Management</u>	<u>Proposed U.S.</u>
Capital Increase Size	5,004	10,400	8,400
U.S. Share	<u>814</u>	<u>1,695</u>	<u>1,369</u>
Paid-in	81	169	68
<Callable>	<733>	<1,526>	<1,301>
Annual U.S. Subscription			
Paid-in	20	34	14
<Callable>	<183>	<305>	<260>

* Argentina, Brazil and Mexico

** Combined FSO and Intermediate Financing Facility

Table B
Maximum FY 1984 MDB Budget Request
Assuming FY 1983 Continuing Resolution
(\$ millions)

	<u>FY 1984 Planning Level</u>	<u>Possible Shortfall From FY 83 CR</u>	<u>Additional Proposed Replenishments</u>	<u>Maximum FY 1984 Request</u>
<u>IBRD</u>				
Paid-in	109.7	---	---	109.7
Callable	< <u>1,353.2</u> >	< <u>---</u> >	< <u>---</u> >	< <u>1,353.2</u> >
Total	<u>1,462.9</u>	<u>---</u>	<u>---</u>	<u>1,462.9</u>
<u>IDA</u>	1,095.0	245.0	---	1,340.0
<u>IFC</u>	---	---	---	---
<u>IDB</u>				
Paid-in		14.4	59.9	74.3
Callable	< <u>---</u> >*	< <u>218.6</u> >	< <u>1,138.9</u> >	< <u>1,357.5</u> >
Total	<u>---</u>	<u>232.9</u>	<u>1,198.9</u>	<u>1,431.8</u>
<u>FSO/PSI</u>	141.1**	48.5	---	189.6
<u>ADB</u>				
Paid-in	---	---	13.7	13.7
Callable	< <u>---</u> >*	< <u>---</u> >	< <u>260.1</u> >	< <u>260.1</u> >
Total	<u>---</u>	<u>---</u>	<u>273.8</u>	<u>273.8</u>
<u>ADF</u>	147.1	15.5	---	162.6
<u>AFDB</u>				
Paid-in	---	---	18.0	18.0
Callable	< <u>---</u> >	< <u>---</u> >	< <u>54.0</u> >	< <u>54.0</u> >
Total	<u>---</u>	<u>---</u>	<u>72.0</u>	<u>72.0</u>
<u>AFDF</u>	50.0	---	---	50.0
 Total MDBs	 <u>2,896.1</u>	 <u>542.0</u>	 <u>1,544.6</u>	 <u>4,982.8</u>
Budget Authority	1,542.9	323.4	91.6	1,958.0
Callable Capital	< 1,353.2 >*	< 218.6 >	< 1,453.0 >	< 3,024.8 >

Columns may not add due to rounding.

* Excludes hypothetical amounts of callable capital used for planning purposes.

** Includes \$41.1 million of "arrearages" and \$100 million for new FSO replenishment and participation in PSI.